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Subchapter 53A CSRS

Part 53A1 General Information

Section 53A1.1-1 Overview

A. Introduction

This subchapter covers the CSRS "Alternative Form of Annuity" (AFA) provisions that apply to employees whose annuities commence on or after October 1, 1994. Employees who elect the AFA when they retire receive, instead of the annuity otherwise payable, a reduced annuity including a survivor annuity option, plus a lump-sum payment equal to all of their retirement contributions.

NOTE: Subchapter 53C, part 53C2 contains examples of the computation of the Alternative Form of Annuity.

B. Topics Covered

This subchapter covers:

- The eligibility and election requirements to receive the alternative annuity;
- The computation of the alternative annuity;
- How dual eligibility for optional retirement and workers' compensation is affected by an alternative annuity election; and
- Advice the agency should provide the employee about the effect of electing a reduced annuity and lump-sum payment.

C. Organization of Subchapter

This subchapter has five parts.

Part	Name of Part	Page
53A1	General Information	1
53A2	Computation of the AFA	5
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NOTE: Subchapter 53B about the Alternative Form of Annuity (AFA) under FERS begins on page 19.

Section 53A1.1-1 Overview (Cont.)**D. Statement of
Authority**

This subchapter is based on the laws and regulations cited below.

- United States Code: 5 U.S.C. 8343a
 - Public Law 103-66 section 11002
 - Code of Federal Regulations: 5 CFR Part 831, Subpart V
-

Section 53A1.1-2 Eligibility Requirements

- A. General** As of October 1, 1994, the only employees who may elect the AFA are those who are eligible for a **nondisability** annuity and who have a life-threatening affliction or other critical medical condition. See section 53C1.1-4 for a listing of qualifying conditions. Employees who qualify for the AFA under this rule will receive only a single (100 percent) lump sum payment.
- B. Disability Retirees** Employees who retire under the disability provisions are not eligible to elect AFA.
- NOTE: Nondisability retirees who elect the AFA may not apply for disability retirement after final adjudication of their annuity, that is, 30 days after the date they receive their first regular monthly payment.
- C. Court Order Bars AFA Election** An employee who is otherwise eligible to elect AFA may not do so if he or she has a former spouse who is entitled by court order to a survivor annuity or a portion of the employee's annuity. The law prohibits election of the AFA even if the former spouse consents to the election.
- NOTE: A court-ordered former spouse benefit, issued in conjunction with a divorce decree that terminates a marriage after the retirement of an employee, but before the employee's claim is finally adjudicated, will not bar an AFA election. However, spousal consent to the election is still required. See paragraph F below.
- D. Spousal Consent Requirement** The law requires that an employee married at the time of retirement may not elect the AFA unless the employee's spouse consents to the election.
- E. Waiver of Spousal Consent Requirement** OPM may waive the spousal consent requirement if the employee can present:
- A judicial determination that the whereabouts of the current spouse are unknown; or
 - Affidavits from the employee and two other persons acquainted with the spouse, at least one of whom is not related to the employee, stating that the current spouse's whereabouts cannot be determined and detailing all efforts to locate the spouse (Secondary evidence such as copies of the employee's separately filed tax returns should also be submitted.); or

Section 53A1.1-2 Eligibility Requirements (Cont.)**E. Waiver of
Spousal Consent
Requirement
(Cont.)**

- A judicial determination that spousal consent is not required based on exceptional circumstances.

If a court determines that the spousal consent requirement should be waived based on exceptional circumstances, the court order must specify that:

- The case before the court involves an employee who is retiring from Federal service;
 - The employee's spouse has been notified of an opportunity to be heard concerning the judicial determination;
 - The court has considered sections 8339(j)(1) or 8416(a)(2) of title 5, United States Code, and sections 831.608 or 842.607 of title 5, Code of Federal Regulations, as those sections relate to waiver of the spousal consent requirement; and
 - The court finds that exceptional circumstances do justify waiver of the spouse's consent.
-

Part 53A2 Computation of the AFA**Section 53A2.1-1 The Lump-Sum Payment**

**A. Amounts
Included in the
Lump-Sum
Payment**

An employee who elects the AFA will receive a lump-sum payment consisting of:

- Unrefunded retirement deductions;
- Civilian service credit deposits;
- Military service credit deposits; and
- Interest on any unrefunded deductions and deposits made before 1957.

NOTE: The lump-sum payment does not include deductions made after the employee reaches the maximum annuity. See Chapter 50, Computation of Annuity Under the General Formula, section 50A3.1-2.

Section 53A2.1-2 Computation of the Reduced Annuity

A. General

The computation of the reduction for election of the AFA is based on the employee's age at the time of retirement, and the amount of the employee's "lump-sum credit" (see paragraph B, below). The reduction is designed so that the amount of the AFA -- reduced annuity plus lump-sum payment -- is actuarially equivalent to the regular annuity that otherwise would be payable over the employee's lifetime.

B. Definition of Lump-Sum Credit

The lump-sum credit is the total of the amounts included in the lump-sum payment (see section 53A2.1-1A) **plus** the amounts of any deposits and redeposits that are deemed paid (see paragraph E, below).

C. Present Value Factor

Present value factors are used to determine the reduction that is applied to the regular annuity of retirees who elect the AFA. The factors are unisex and are obtained by averaging sex-distinct present value factors, weighted by the total dollar value of annuities typically paid to new retirees at each age.

NOTE: See subchapter 53C, section 53C1.1-1 for the present value factors for CSRS employees.

D. AFA Computation Method

To compute the alternative form of annuity, follow these instructions.

1. Compute the annual annuity otherwise payable. Include any applicable reductions for age and survivor benefits, but compute the annuity as if any unpaid redeposits or deposits for civilian service have been paid.
2. Determine the monthly annuity otherwise payable by dividing the annual annuity determined in step 1 by 12 and rounding down.
3. Compute the monthly AFA reduction by dividing the retiree's lump-sum credit by the present value factor for the retiree's attained age in full years at the time of retirement.

NOTE 1: "Attained age" is the retiree's age on the date the annuity commences.

NOTE 2: Unless the product obtained in step 3 is an exact dollar amount, round up to the next higher dollar to obtain the monthly AFA reduction.

Section 53A2.1-2 Computation of the Reduced Annuity (Cont.)**D. AFA
Computation
Method (Cont.)**

4. Subtract the monthly AFA reduction computed in step 3 from the monthly annuity computed in step 2 to obtain the monthly annuity reduced for AFA.

NOTE 1: All COLA's subsequent to retirement are applied to the AFA-reduced annuity rate.

NOTE 2: See section 53C2.1-1, for an example of a CSRS computation of the alternative form of annuity.

NOTE 3: The reduction in the employee's annuity does not affect any survivor benefit elected. The survivor benefit will be based on the unreduced annuity.

**E. Deemed Deposits
and Redeposits**

If an employee owes any redeposits or deposits for **civilian service** and elects the AFA, the redeposits and deposits are deemed to have been paid in computing the employee's annuity. The total of all deemed deposits and redeposits are included in the employee's lump-sum credit for purposes of computing the amount of the AFA annuity reduction.

NOTE 1: If the employee is covered by CSRS or by FERS with a CSRS component, and the employee received a refund of CSRS contributions for a period of service that ended before October 1, 1990, he or she will be allowed credit for that service, subject to an actuarial reduction in the annuity, without paying a redeposit. If the employee elects an alternative annuity under those circumstances, the amount of the redeposit is not considered a "deemed" redeposit, and is not included in the amount of the lump-sum payment reported to IRS.

NOTE 2: Post-1956 military service credit deposits **are not** deemed made under the AFA provisions. They must be paid to the employing agency before separation.

Part 53A3 Miscellaneous**Section 53A3.1-1 Taxation of Alternative Annuity Lump Sums**

- A. Tax Status of the AFA** Annuities and lump-sum payments are taxable under the "General Rule" outlined in IRS Publication 721, "Comprehensive Tax Guide to U.S. Civil Service Retirement Benefits." The General Rule must be followed to calculate the taxable portion of the lump-sum payment of the AFA. Most of the lump-sum credit received is taxable income under Federal tax law. However, a portion is excludable income. For tax purposes, the lump-sum credit includes deemed deposits and redeposits. However, see section 53A2.1-2E, Note 1, concerning refunded service that ended before October 1, 1990.

> The taxable portion of the AFA lump sum is eligible to be rolled over into an IRA under provisions of Public Law 102-318. If the benefits are not rolled over by OPM into an IRA, 20 percent is withheld for Federal income tax. The withholding rate for these benefits cannot be changed. (See Special Tax Notice Regarding Rollovers (RI 37-22), Section 53C3.1-1, for information about rollovers.) <

B. Estimating the Tax Free Amount of the Lump Sum

To estimate the tax-free amount:

1. Divide the amount of the AFA reduction in the annual annuity by the annual annuity without the AFA reduction; and
2. Multiply the amount obtained in step 1 by the lump-sum credit.

EXAMPLE: Bill Brackin was 55 years old when he retired in 1993. His monthly annuity before reduction for AFA is \$2,300. His total lump-sum credit is \$34,000. He owes a redeposit of \$1,700. Estimate the tax-free amount of lump-sum payment as follows.

- (a) Multiply the unreduced monthly rate of annuity by 12 to obtain the annual unreduced annuity ($\$2,300 \times 12 = \$27,600$).
- (b) Divide the lump-sum credit, including the deemed redeposit, by the Present Value Factor (see section 53C1.1-1) ($\$35,700 \div 225.1 = \158.60 , rounded to \$159) and multiply by 12 ($\$159 \times 12 = \$1,908$) to obtain the annual amount of AFA annuity reduction.

NOTE: The Present Value Factor for age 55 in 1993 was 225.1.

- (c) Divide the **annual** amount of the AFA annuity reduction (\$1,908 in this case) by the annual unreduced annuity to obtain the percentage of the lump-sum credit that is tax free ($\$1,908 \div \$27,600 = 0.07$).

Section 53A3.1-1 Taxation of Alternative Annuity Lump Sums (Cont.)

- (d) Multiply the lump-sum credit, including the deemed redeposit, by 0.07. The result is the estimated tax-free amount of the lump sum ($\$35,700 \times 0.07 = \$2,499$).
-

**C. Tax Liability
When AFA
Lump Sum
Returned to
OPM**

The Internal Revenue Service has ruled on the Federal income tax implications if the lump-sum portion of the AFA has been paid to a retiree, and the retiree subsequently repays that amount to OPM. Once a retiree has elected the AFA, and the lump sum is paid, the individual has incurred a tax liability for the payment, and that tax liability is not altered by subsequent repayment to OPM. A circumstance likely to require such a repayment is an award of compensation benefits by the Department of Labor, Office of Workers' Compensation Programs (OWCP). See section 53A3.1-2 for more information about the effect of OWCP eligibility on the AFA.

Section 53A3.1-2 Dual Eligibility for Retirement and OWCP Compensation

- A. How Election of the AFA May Affect OWCP Benefits**
- Election of the AFA affects eligibility for non-scheduled OWCP compensation. If a retiree is receiving OWCP compensation or has an OWCP claim pending, he or she must be aware of the following information provided by the Office of Workers' Compensation Programs.
1. The Federal Employees' Compensation Act (FECA) prohibits "concurrent payments of compensation benefits and other remuneration from the Federal Government." The alternative form of annuity lump-sum payment, as part of the retirement benefit, constitutes such remuneration.
 2. If an individual is entitled to non-scheduled compensation for a job-related injury or illness under the FECA, he or she **cannot** receive both the lump-sum payment portion of the AFA **and** the non-scheduled compensation.
 3. If an individual receives the AFA lump-sum payment, and then elects OWCP non-scheduled compensation, all monies received from the Civil Service Retirement System (that is, the sum of all regular annuity payments plus the lump-sum payment) must be repaid to OPM **before** the individual can receive the non-scheduled compensation payments.
- B. Effect of Reinstatement of a Regular Retirement Annuity**
- An individual who has applied for a retirement annuity may elect to receive non-scheduled OWCP compensation benefits in lieu of the annuity. If, at a later date, that individual chooses to reinstate the Civil Service retirement benefits (if compensation benefits are reduced or terminated), he or she is eligible to receive **only** the regular annuity benefit. He or she does not have a new opportunity to elect the AFA. The AFA, with the lump-sum payment is, by law, available only at the time of retirement.
-

Part 53A4 AFA Election for Reemployed Annuitants**Section 53A4.1-1 The Lump-Sum Credit**

A. Definition

For the purposes of part 53A4, lump-sum credit is defined as follows.

1. For reemployed annuitants who elected the AFA after the first retirement, the lump-sum credit is equal to any amount paid to the Fund during reemployment.
 2. For reemployed annuitants who did not elect the AFA after the first retirement, the lump-sum credit is equal to:
 - Any amount paid to the Fund during reemployment; plus
 - The lump-sum credit attributable to service performed before the annuitant's first retirement reduced by any annuity payments received between the first retirement and reemployment. The lump-sum credit is not diminished during reemployment, except during periods when the Fund is not reimbursed by the employing agency (for example, a period of nonduty under an intermittent appointment).
 3. The lump-sum credit does not include retirement deductions made after the reemployed annuitant reaches the maximum annuity (see Chapter 50, section 50A3.1-2).
-

Section 53A4.1-2 Eligibility Requirements

A. General Requirements

An annuitant who meets all the requirements for a redetermined annuity that commences on or after October 1, 1994, is eligible to elect the Alternative Form of Annuity if he or she meets the requirements in section 53A1.1-2. An annuitant who is entitled only to a supplemental annuity after reemployment ends may not elect an AFA, and will not receive payment of deductions paid during the reemployment.

NOTE: See Handbook Chapter 100, Reemployed Annuitants, for eligibility requirements for a redetermined annuity.

Section 53A4.1-3 Computation of the AFA for Reemployed Annuitants

A. Reemployed Annuitants Who Elected the AFA After the First Retirement

To compute the reduction in the redetermined annuity for an annuitant who elected the AFA after the first retirement, add 1 and 2 below.

1. The reduction that was made at the time of the annuitant's first retirement, increased by all COLA's the retiree received since retirement; plus
2. A reduction based on the additional lump-sum credit accumulated during the reemployment, using the appropriate present value factor for the annuitant's age when the redetermined annuity begins.

EXAMPLE: Paul Hanson elected the AFA upon his first retirement in 1987, which reduced his annuity by \$50 per month. He was reemployed in 1988 and is retiring again in 1993 with a lump-sum credit since reemployment of \$5,000. Paul's monthly redetermined annuity otherwise payable is \$1,000. He has received five COLA's since his first retirement in 1987, each at 3%. Paul is age 65 at date of retirement in 1993.

- (a) Subtract from the redetermined annuity otherwise payable the monthly reduction for the first AFA election, indexed by COLA's. The monthly reduction in this example (\$50) increased by COLA's (3% per year x 5 years) = \$58.

$$\begin{array}{r} \$1,000 \\ - \quad 58 \\ \hline \$ \quad 942 \end{array}$$

- (b) Subtract from the result obtained above the reemployment lump-sum credit divided by present value factor effective in 1993 for age 65:

$$\begin{array}{r} \$5,000 \\ 168.4 = \$30 \text{ (that is, \$29.69 rounded to higher} \\ \text{dollar)} \end{array}$$

$$\begin{array}{r} \$942 \\ - \quad 30 \\ \hline \$912 = \end{array} \quad \text{the monthly redetermined annuity reduced for election of the AFA.}$$

Section 53A4.1-3 Computation of the AFA for Reemployed Annuitants (Cont.)

B. Reemployed Annuitants Who Did Not Elect the AFA After the First Retirement	If the reemployed annuitant elects the AFA, but did not elect the AFA at the time of his or her first retirement, the redetermined annuity is reduced in the same manner as for a new retiree. However, as noted in section 53A4.1-1, any lump-sum credit derived from service performed before the annuitant's first retirement is reduced by any annuity payments received between that retirement and the reemployment.
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Part 53A5 Procedures**Section 53A5.1-1 Election Requirements**

A. Expedited AFA Process

To expedite the AFA process for those employees in a position to make AFA and rollover decisions at the time they apply for retirement, the elections may be made before retirement based on the information provided by the employing agency. This permits OPM to authorize payment of the lump sum sooner. Eligible employees who complete the Alternative Annuity and Rollover Election Form, RI 38-122, at this time will receive their lump sums at least 30 days earlier than those who choose the current process described in paragraph B, below.

Employees should read both Alternative Annuity Election Information for Employees (Form RI 38-123) and Special Tax Information for Employees (Form RI 37-22) before completing the election form.

The employee should attach a doctor's certification of his or her medical condition to the alternative annuity election. OPM will determine eligibility for the alternative annuity benefit. OPM does not make eligibility determinations before the employee separates or applies for immediate retirement.

After the employee makes the election and returns Form RI 38-122 to the personnel office, the form is to be stapled to the back of the retirement application. The application will then be processed as usual.

B. AFA Election Letter

If the employee does not make a pre-retirement election, but requests the AFA, OPM sends an election letter to the employee after it receives the individual's retirement records from the employing agency. The AFA election letter presents three options.

Option 1: The regular annuity rates that the retiree and spouse are entitled to.

Option 2: The amount the retiree is entitled to if he or she has ever received a refund of Civil Service retirement deductions, or has performed nondeduction service on or after October 1, 1982, and elects to pay the amount owed to get credit for those periods. The amount owed, including interest, is also shown on the form.

Option 3: The amount the retiree is entitled to if he or she chooses a reduced alternative annuity rate. If the retiree chooses this option, he or she will receive the monthly rate shown on the

Section 53A5.1-1 Election Requirements (Cont.)

- B. AFA Election Letter (Cont.)** form plus a refund equal to all Civil Service retirement contributions.

A retiree has 30 days to make an election. Unless the election is received, OPM will take no action until the 30-day time limit has expired. If the election is not returned to OPM within 30 days, the individual's retirement will be processed under Option 1.

If the retiree elects the AFA, OPM will send rollover information with his or her annuity estimate for the retiree to make the rollover election and return the RI 38-22 to OPM.

NOTE: If the retiree elects Option 1 or does not return the form within 30 days, and OPM has begun processing under Option 1, the retiree can still elect the AFA so long as he or she notifies OPM of the election on or before the date of final adjudication (that is, 30 days after the date of the first regular monthly payment).

C. Death of Annuitant

1. Except as provided in paragraph 2 below, if an annuitant is eligible to elect the AFA and dies before the date of final adjudication (that is, 30 days after the date of the first regular monthly payment), regardless of whether or not the annuitant had elected the AFA and/or survivor benefits:
 - An affirmative election of the alternative annuity is deemed made;
 - The lump-sum credit will be paid in accordance with the order of precedence; and
 - An election of a fully reduced annuity to provide a current spouse annuity is deemed made, even if the annuitant had elected a lesser benefit.
 2. If an annuitant described in paragraph 1 above had made an election to provide a survivor annuity for a former spouse, that election will be honored and the lump-sum credit will be paid in accordance with the order of precedence.
-

Section 53A5.1-2 Advice to Employee

A. AFA Estimates

Agencies should anticipate that employees who have life-threatening medical conditions and who are eligible to retire under a nondisability provision will want estimates of the amount to expect if they elect the AFA. The following information applies to the AFA estimates.

1. If an employee's entire civilian service (without breaks) has been with the current employing agency, that agency has a complete record of retirement deductions for use in estimating the AFA benefit. OPM does not provide pre-retirement annuity estimates.
2. If an employee has made service credit deposits or has retirement deductions for service prior to that at the current employing agency, he or she must furnish the approximate amounts of those deposits or deductions from personal records for use in estimating the AFA rate.
3. If the amount of deposits and deductions are not available from personal records, the employee may request this information from OPM at the address given below. The employee should provide his or her full name, date of birth, Social Security number, and service credit deposit account number (CSD), if any.

Office of Personnel Management
Retirement Operations Center
Boyers, PA 16017

NOTE: Employees should allow at least 30 days for processing.

B. Factors to Consider in Election of the AFA

It is important that an employee consider the following factors before electing the AFA.

1. The amount by which the monthly annuity will be reduced.
2. The effect of receiving the lump-sum payment on Federal and State taxes.

Section 53A5.1-2 Advice to Employee (Cont.)**B. Factors to Consider in Election of the AFA (Cont.)**

3. The effect on deposits and redeposits owed for civilian service:
 - Principal and interest of deposits and redeposits owed will be **deemed** paid if the AFA is elected (except for redeposits based on refunded service that ended before October 1, 1990, as explained in section 53A2.1-2E, NOTE 1, and military service deposits);
 - Deposit and redeposit service will be fully credited for eligibility and computation purposes; and
 - The deemed deposits and redeposits will not be paid to the employee in the lump-sum payment but will be considered in the reduction of the annuity and for Federal and State tax purposes (see section 53A3.1-1).
4. The AFA election does not affect survivor elections or amount of survivor benefits. See paragraph D below.

C. Survivor Benefits

The amount of the survivor annuity elected at time of retirement is not affected by the election of the AFA. The amount of the survivor annuity (and reduction in annuity for electing survivor annuity) is based on the retiree's annuity **before** reduction for the AFA.

Children's survivor benefits are not affected by the election of the AFA.

Subchapter 53B FERS

Part 53B1 General Information

Section 53B1.1-1 Overview

- A. Introduction** Subchapter 53B covers the benefits available to employees who elect the alternative form of annuity (AFA) under FERS.

This subchapter explains how FERS differs from CSRS. It refers readers to the established parallel procedure or gives the FERS rule if it is different.

- B. Organization of Subchapter** This subchapter has two parts.

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53B2	Computation of the AFA for FERS Transferees With a CSRS Component	20

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- C. Applicable CSRS Provisions** Except as noted below, subchapter 53A under CSRS applies to AFA elections for FERS employees. See part 53B2 for information about FERS transferees.

EXCEPTION: The present value factors for employees under FERS and FERS transferees are different from the CSRS present value factors.

NOTE 1: See sections 53C2.1-2 and 53C2.1-3 for examples of FERS computations of the alternative form of annuity.

NOTE 2: See subchapter 53C, section 53C1.1-2 for the present value factors for regular FERS employees and section 53C1.1-3 for law enforcement officers, firefighters, air traffic controllers and military reserve technicians.

- D. Statement of Authority** This subchapter is based on the laws and regulations cited below.

- United States Code: 5 U.S.C. 8420a
 - Public Law 103-66, section 11002
 - Code of Federal Regulations: 5 CFR Part 842, Subpart G
-

Part 53B2 Computation of the AFA for FERS Transferees With CSRS Component**Section 53B2.1-1 Computation of the Reduced Annuity**

A. General Rule

The computation method for determining the reduced annuity for election of the AFA for FERS transferees with a CSRS component is very similar to the computation method for CSRS and FERS employees. However, a separate CSRS or FERS AFA reduction factor is applied to each component of the annuity to obtain the combined monthly annuity reduced for electing the AFA.

**B. AFA
Computation
Method**

To compute the alternative form of annuity for FERS transferees with a CSRS component, use the following method.

Step 1: Compute the combined monthly annuity otherwise payable.

- a. Compute the combined annual annuity, including any applicable reduction for age. However, compute the annuity as if any unpaid redeposits and deposits for civilian service have been paid.
- b. If applicable, multiply the combined annual annuity determined in step 1a by the reduction factor for election of survivor benefits. The reduction factor is .90 if the full annuity is used as the base or .95 if one-half of the annuity is used as the base.
- c. Determine the combined monthly annuity otherwise payable by dividing the combined annual annuity reduced for survivor benefits by 12 and round down.

Step 2: Compute the CSRS portion of the monthly annuity.

- a. Compute the CSRS portion of the annual annuity otherwise payable.
- b. If applicable, multiply the CSRS portion of the annual annuity by the reduction factor for election of survivor benefits to obtain the CSRS portion of the annual annuity reduced for survivor benefits. The reduction factor is .90 if the full annuity is used as the base or .95 if one-half of the annuity is used as the base.
- c. Determine the CSRS portion of the monthly annuity reduced for survivor benefits by dividing the CSRS portion of the annual annuity reduced for survivor benefits by 12, and round down.

Section 53B2.1-1 Computation of the Reduced Annuity (Cont.)

**B. AFA
Computation
Method (Cont.)**

Step 3: Compute the FERS portion of the monthly annuity reduced for survivor benefits.

- a. Subtract the CSRS portion of the monthly annuity reduced for survivor benefits determined in step 2c from the combined monthly annuity reduced for survivor benefits determined in step 1c to obtain the FERS portion of the monthly annuity reduced for survivor benefits.

Step 4: Compute the combined monthly annuity reduced for AFA.

- a. Compute the CSRS monthly AFA reduction by dividing the retiree's CSRS lump-sum credit (including any deemed deposits and redeposits) by the CSRS present value factor for the retiree's attained age (in full years) at the time of retirement.

NOTE: Unless the product obtained is an exact dollar amount, round up to the next higher dollar to obtain the monthly reduction in annuity.

EXAMPLE: \$192.00 would not be rounded.
\$192.10 would be rounded to \$193.00.

- b. Subtract the CSRS monthly AFA reduction computed in step 4a from the CSRS portion of the monthly annuity reduced for survivor benefits computed in step 2c to obtain the CSRS portion of the monthly annuity reduced for AFA.
- c. Compute the FERS monthly AFA reduction by dividing the retiree's FERS lump-sum credit including any deemed deposits and redeposits by the FERS present value factor for the retiree's attained age in full years at the time of retirement. Round up to the next higher dollar as illustrated in step 4a.
- d. Subtract the FERS monthly AFA reduction computed in step 4c from the FERS portion of the monthly annuity reduced for survivor benefits computed in step 3a to obtain the FERS portion of the monthly annuity reduced for AFA.

Section 53B2.1-1 Computation of the Reduced Annuity (Cont.)**B. AFA
Computation
Method (Cont.)**

- e. Add the FERS portion of the monthly annuity reduced for AFA determined in step 4d and the CSRS portion of the monthly annuity reduced for AFA determined in step 4b to obtain the combined monthly annuity reduced for AFA.

NOTE 1: All applicable COLA's subsequent to retirement are applied to the AFA-reduced rate. Each component of a FERS transfer case is updated separately for COLA's. See Chapter 2, Cost of Living Adjustments, section 2B4.1-1, regarding COLA's for FERS transferees with a CSRS component.

NOTE 2: See section 53C2.1-3 for an example of the computation of the AFA for a FERS transferee with a CSRS annuity component.

Section 53B2.1-2 Effect of Refund of CSRS Contributions on Computation of AFA

**A. Effect of Refund
of CSRS
Contributions**

An employee who transfers to FERS and later separates from service before becoming eligible for an immediate annuity may, if the employee has title to a CSRS annuity component, choose to take a refund of his or her CSRS contributions only, leaving FERS contributions in the retirement fund. Such former employees retain title to a FERS deferred annuity and may redeposit the CSRS contributions without returning to Federal service. The redeposit may be made at any time before OPM completes processing the individual's application for deferred annuity. The redeposit, however, **cannot be deemed paid if the individual elects the AFA**; a refund of CSRS contributions paid after an employee transfers to FERS can be redeposited only by actual payment to OPM of the amount due, unless the individual is reemployed before applying for a deferred annuity, and later qualifies for an immediate annuity. (See Handbook Chapter 45, Deferred Retirement, for additional information.)

NOTE: The exception to the rule stated above is that if the refunded CSRS service was based on service ending before October 1, 1990, the employee will receive credit for the service without making a redeposit. See section 53A2.1-2E, NOTE 1.

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Subchapter 53C Job Aids and Examples

Part 53C1 Job Aids

Section 53C1.1-1

CSRS
PRESENT VALUE FACTORS
(Effective 10-1-94)

<u>Age at Retirement</u>	<u>Reduction Factor</u>	<u>Age at Retirement</u>	<u>Reduction Factor</u>
40	294.4	66	156.0
41	290.0	67	150.7
42	285.5	68	
145.4			
43	280.8	69	140.2
44	276.2	70	134.7
45	270.4	71	129.4
46	264.7	72	124.0
47	259.2	73	118.8
48	253.5	74	113.6
49	247.2	75	108.5
50	240.4	76	103.5
51	235.0	77	98.7
52	229.8	78	93.9
53	224.4	79	89.4
54	218.6	80	84.9
55	212.6	81	80.5
56	207.5	82	76.3
57	202.4	83	72.3
58	197.0	84	68.4
59	192.3	85	64.7
60	188.3	86	61.2
61	182.9	87	57.9
62	177.0	88	54.7
63	171.9	89	51.8
64	166.5	90	48.9
65	161.1		

Section 53C1.1-2FERS
PRESENT VALUE FACTORS
FOR REGULAR EMPLOYEES

(Effective 10-1-94)

<u>Age at Retirement</u>	<u>Reduction Factor</u>	<u>Age at Retirement</u>	<u>Reduction Factor</u>
40	169.2	66	143.6
41	168.8	67	139.1
42	168.4	68	134.6
43	168.1	69	130.1
44	167.7	70	125.4
45	166.9	71	120.7
46	166.1	72	116.0
47	165.4	73	111.4
48	164.7	74	106.8
49	163.4	75	102.2
50	162.4	76	97.8
51	161.9	77	93.5
52	161.6	78	89.2
53	161.2	79	85.0
54	160.6	80	80.9
55	160.0	81	77.0
56	160.0	82	73.1
57	160.2	83	69.4
58	160.4	84	65.8
59	161.2	85	62.4
60	162.7	86	59.1
61	163.5	87	56.0
62	161.3	88	53.0
63	157.1	89	50.2
64	152.5	90	47.5
65	148.0		

Section 53C1.1-3

FERS
PRESENT VALUE FACTORS
FOR LAW ENFORCEMENT OFFICERS
FIREFIGHTERS
AIR TRAFFIC CONTROLLERS
MILITARY RESERVE TECHNICIANS WHO RETIRE UNDER
5 U.S.C. 8414(c) BY REASON OF DISABILITY

(Effective 10-1-94)

<u>Age at Retirement</u>	<u>Reduction Factor</u>
40	245.2
41	241.9
42	238.5
43	235.0
44	231.5
45	227.9
46	224.2
47	220.3
48	216.5
49	212.6
50	208.6
51	204.5
52	200.3
53	196.1
54	191.8
55	187.4
56	183.1
57	178.6
58	174.2
59	169.7
60	165.1
61	160.4

Section 53C1.1-4

LIFE-THREATENING AFFLICTION OR OTHER CRITICAL MEDICAL CONDITION

The existence of one of the following medical conditions is **prima facie** evidence of a life threatening affliction or other critical medical condition.

- Metastatic and/or inoperable neoplasms.
- Aortic stenosis (moderate - severe).
- Class IV cardiac disease with congestive heart failure.
- Respiratory failure.
- Cor pulmonale with respiratory failure.
- Emphysema with respiratory failure.
- Ventricular tachycardia.
- Severe cardiomyopathy.
- Aplastic anemia.
- Uncontrolled hypertension with hypertensive encephalopathy.
- Cardiac aneurysm.
- Agranulocytosis.
- Hepatic failure.
- Severe hypoxic brain damage.
- Severe portal hypertension with esophageal varices.
- AIDS (Active - Not AIDS Related Complex or only seropositivity).
- Life threatening infections (encephalitis, meningitis, rabies, etc.).
- Scleroderma with severe esophageal involvement.
- Amyotrophic lateral sclerosis (rapidly progressive).
- Hemiplegia with life threatening complications.
- Quadriplegia with life threatening complications.
- Ventricular flutter.

Evidence of the existence of a life-threatening affliction or other critical medical condition must be certified by a physician and sent to OPM on or before the date the annuitant elects to receive an alternative form of annuity.

If a medical condition other than those listed above is claimed, OPM will review the physician's certification to determine whether the cited condition is life-threatening or critical.

The cost of providing medical documentation of a life-threatening affliction or other critical medical condition rests with the employee unless OPM exercises its choice of physician.

Section 53C1.1-5 Sample Form for CSRS AFA Computation

AFA COMPUTATION FOR CSRS EMPLOYEES

Annual Annuity Otherwise Payable (Including reductions for age and survivor benefits)	\$
Monthly Annuity Otherwise Payable (Divide by 12, round down)	\$
Subtract Monthly AFA Reduction: (Round to next higher dollar) CSRS Contributions = <div style="display: flex; justify-content: space-between; align-items: center;"> <div style="border-bottom: 1px solid black; width: 20%;"></div> <div style="border-bottom: 1px solid black; width: 20%;"></div> <div style="border-bottom: 1px solid black; width: 20%;"></div> <div style="border-bottom: 1px solid black; width: 20%;"></div> <div style="border-bottom: 1px solid black; width: 20%;"></div> <div style="border-bottom: 1px solid black; width: 20%;"></div> </div>	
	-
CSRS PVF =	
CSRS MONTHLY ANNUITY REDUCED FOR AFA	\$

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Section 53C1.1-6 Sample Form for FERS AFA Computation

AFA COMPUTATION FOR FERS EMPLOYEES

Annual Annuity Otherwise Payable (Including reductions for age and survivor benefits)	\$
Monthly Annuity Otherwise Payable (Divide by 12, round down)	\$
Subtract Monthly AFA Reduction: (Round to next higher dollar)	
FERS Contributions =	
<hr/>	-
FERS PVF =	
FERS MONTHLY ANNUITY REDUCED FOR AFA	\$

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Section 53C1.1-7 Sample Form for AFA Computation for FERS Transferee
With a CSRS Component

**AFA COMPUTATION FOR
FERS TRANSFEEE WITH A CSRS COMPONENT**

1. COMPUTE <u>COMBINED</u> MONTHLY ANNUITY REDUCED FOR SURVIVOR BENEFITS	
Combined Annual Annuity Otherwise Payable	\$
Reduction Factor for Survivor Benefits (.90 = Full, .95 = Half)	X .
Combined Annual Annuity Reduced for Survivor Benefits	\$
(A) COMBINED MONTHLY ANNUITY REDUCED FOR SURVIVOR BENEFITS (Divide by 12, round down)	X

2. COMPUTE <u>CSRS</u> PORTION OF MONTHLY ANNUITY REDUCED FOR SURVIVOR BENEFITS	
CSRS Portion of Annual Annuity Otherwise Payable	\$
Reduction Factor for Survivor Benefits (.90 = Full, .95 = Half)	.
CSRS Portion of Annual Annuity Reduced for Survivor Benefits	\$
(B) CSRS PORTION OF MONTHLY ANNUITY REDUCED FOR SURVIVOR BENEFITS (Divide by 12, round down)	\$

3. COMPUTE <u>FERS</u> PORTION OF MONTHLY ANNUITY REDUCED FOR SURVIVOR BENEFITS	
Combined Monthly Annuity Reduced for Survivor Benefits (A)	\$
CSRS Portion of Monthly Annuity Reduced for Survivor Benefits (B)	-
(C) FERS PORTION OF MONTHLY ANNUITY REDUCED FOR SURVIVOR BENEFITS	\$

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Section 53C1.1-7 Sample Form for AFA Computation for FERS Transferee
With a CSRS Component (Cont.)

AFA COMPUTATION FOR FERS TRANSFEEE WITH A CSRS COMPONENT

4. COMPUTE <u>COMBINED</u> MONTHLY ANNUITY REDUCED FOR AFA		
CSRS Portion of Monthly Annuity Reduced for Survivor Benefits (B)	\$	
FERS Portion of Monthly Annuity Reduced for Survivor Benefits (C)		\$
Subtract Monthly AFA Reduction for Each Component:		
a. CSRS Contributions Divided by CSRS PVF: (Round to next higher dollar)		
CSRS Contributions = _____ = _____	-	
CSRS PVF = _____		
b. FERS Contributions Divided by FERS PVF: (Round to next higher dollar)		
FERS Contributions = _____ = _____		-
FERS PVF = _____		
CSRS Portion of Monthly Annuity Reduced for AFA	\$	
(D) FERS Portion of Monthly Annuity Reduced for AFA		\$
Add FERS Portion of Monthly Annuity Reduced for AFA (D)	+	
COMBINED MONTHLY ANNUITY REDUCED FOR AFA	\$	

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Part 53C2 Examples**Section 53C2.1-1 CSRS Alternative Annuity Election****Example 1**

Jackie Taylor is age 57. Her annual annuity otherwise payable is \$30,708. Her lump-sum credit at date of retirement is \$24,590. Take the following steps to compute the reduced monthly annuity for election of the Alternative Form of Annuity.

1. Enter the annual annuity otherwise payable (\$30,708).
2. Divide the annual annuity otherwise payable (\$30,708) by 12 and round down to obtain the monthly annuity otherwise payable (\$2,559).
3. Compute the monthly AFA reduction by dividing the CSRS lump-sum credit (\$24,590) by the CSRS Present Value Factor (PVF) for age 57 (202.4) from the CSRS PRESENT VALUE FACTOR CHART provided in section 53C1.1-1 to obtain the CSRS monthly AFA reduction (\$121.49). Round \$121.49 to the next higher dollar (\$122) and enter this amount.
4. Subtract the CSRS monthly AFA reduction (\$122) from the monthly annuity otherwise payable (\$2,559) to obtain the CSRS monthly annuity reduced for AFA (\$2,437).

Example 1 (Cont.)

AFA COMPUTATION FOR CSRS EMPLOYEES

Annual Annuity Otherwise Payable (Including reductions for age and survivor benefits)		\$30,708
Monthly Annuity Otherwise Payable (Divide by 12, round down)		\$ 2,559
Subtract Monthly AFA Reduction: (Round to next higher dollar)		
CSRS Contributions	= 24,590	
	=	- 122
CSRS PVF	= 202.4	
CSRS MONTHLY ANNUITY REDUCED FOR AFA		\$ 2,437

Section 53C2.1-2 FERS Alternative Annuity Election

Example 2

Daniel Corman is age 59. His annual annuity otherwise payable is \$42,568.20. His lump-sum credit on the date of retirement is \$19,641. Take the following steps to compute the monthly annuity with election of the alternative annuity.

1. Enter the annual annuity otherwise payable (\$42,568.20).
2. Divide the annual annuity (\$42,568.20) by 12 and round down to obtain the monthly annuity (\$3,547).
3. Compute the monthly AFA reduction by dividing the FERS contributions (\$19,641) by the FERS Present Value Factor (PVF) for age 59 (161.2) from the FERS PRESENT VALUE FACTOR CHART provided in section 53C1.1-2 to obtain the FERS monthly AFA reduction (\$121.84). Round \$121.84 to the next higher dollar (\$122) and enter this amount.
4. Subtract the FERS monthly AFA reduction (\$122) from the monthly annuity (\$3,547) to obtain the FERS monthly annuity reduced for AFA (\$3,425).

Example 2 (Cont.)

AFA COMPUTATION FOR FERS EMPLOYEES

Annual Annuity Otherwise Payable (Including reductions for age and survivor benefits)		\$42,568.20
Monthly Annuity Otherwise Payable (Divide by 12, round down)		\$ 3,547
Subtract Monthly AFA Reduction: (Round to next higher dollar)		
FERS Contributions	= 19,641	
	=	- 122
FERS PVF	= 161.2	
FERS MONTHLY ANNUITY REDUCED FOR AFA		\$ 3,425

Section 53C2.1-3 FERS Transferee With a CSRS Annuity Component Alternative Annuity Election

Example 3

Jim Gray is age 60. His annual annuity otherwise payable is \$25,312. The CSRS portion of his annual annuity is \$20,250. His lump-sum credit on the date of retirement is \$30,000, \$20,000 in CSRS contributions and \$10,000 in FERS retirement contributions. Jim has selected a survivor annuity based on his full annuity. Take the following steps to compute the monthly annuity with election of the alternative annuity.

Step 1: Compute the combined monthly annuity reduced for survivor benefits.

1. Enter the combined annual annuity otherwise payable (\$25,312).
2. Enter the factor for reduction for survivor benefits (.90 based on full annuity).
3. Multiply the reduction factor (.90) by the combined annual annuity otherwise payable (\$25,312) to obtain the combined annual annuity reduced for survivor benefits (\$22,780.80).
4. To obtain the combined monthly annuity reduced for survivor benefits (\$1,898), labeled as "(A)", divide the combined annual annuity reduced for survivor benefits by 12 and round down.

Step 2: Compute the CSRS portion of the monthly annuity reduced for survivor benefits

1. Enter the CSRS portion of the annual annuity otherwise payable (\$20,250).
2. Enter the factor for reduction for survivor benefits (.90 based on full annuity).
3. Multiply the reduction factor (.90) by the CSRS portion of the annual annuity otherwise payable (\$20,250) to obtain the CSRS portion of the annual annuity reduced for survivor benefits (\$18,225).
4. To obtain the CSRS portion of the monthly annuity reduced for survivor benefits (\$1,518), labeled as "(B)", divide the CSRS portion of the annual annuity reduced for survivor benefits by 12 and round down.

Step 3: Compute the FERS portion of the monthly annuity reduced for survivor benefits.

1. Enter (A), the combined monthly annuity reduced for survivor benefits (\$1,898).
2. Enter (B), the CSRS portion of the monthly annuity reduced for survivor benefits (\$1,518).
3. Subtract (B) from (A) to obtain the FERS portion of the monthly annuity reduced for survivor benefits, labeled as "(C)".

Example 3 (Cont.)

Step 4: Compute the combined monthly annuity reduced for AFA.

1. Enter (B), the CSRS portion of the monthly annuity reduced for survivor benefits (\$1,518).
2. Enter (C), the FERS portion of the monthly annuity reduced for survivor benefits (\$380).
3. Compute the monthly AFA reduction for each component:
 - a. Divide the CSRS contributions (\$20,000) by the CSRS Present Value Factor (PVF) for age 60 (188.3) from the CSRS PRESENT VALUE FACTOR CHART provided in section 53C1.1-1 to obtain the CSRS monthly AFA reduction (\$106.21). Round \$106.21 to the next higher dollar (\$107) and enter this amount.
 - b. Divide the FERS contributions (\$10,000) by the Present Value Factor (PVF) for age 60 (162.7) from the FERS PRESENT VALUE FACTOR CHART provided in section 53C1.1-2 to obtain the FERS monthly AFA reduction (\$61.46). Round \$61.46 to the next higher dollar (\$62) and enter this amount.
4. Subtract the CSRS monthly AFA reduction (\$107) from the CSRS portion of the monthly annuity reduced for survivor benefits (\$1,518) to obtain the CSRS portion of the monthly annuity reduced for AFA (\$1,411).
5. Subtract the FERS monthly AFA reduction (\$62) from the FERS portion of the monthly annuity reduced for survivor benefits (\$380) to obtain the FERS portion of the monthly annuity reduced for AFA (\$318) labeled as "(D)".
6. Enter (D), the FERS portion of the monthly annuity reduced for AFA.
7. Add (D), the FERS portion of the monthly annuity reduced for AFA (\$318), and the CSRS portion of the monthly annuity reduced for AFA (\$1,411) to obtain the combined monthly annuity reduced for AFA (\$1,729).

Example 3 (Cont.)

AFA COMPUTATION FOR FERS TRANSFeree WITH A CSRS COMPONENT

1. COMPUTE <u>COMBINED MONTHLY ANNUITY</u> REDUCED FOR SURVIVOR BENEFITS	
Combined Annual Annuity Otherwise Payable	\$ 25,312
Reduction Factor for Survivor Benefits (.90 = Full, .95 = Half)	x .90
Combined Annual Annuity Reduced for Survivor Benefits	\$ 22,780.80
(A) COMBINED MONTHLY ANNUITY REDUCED FOR SURVIVOR BENEFITS (Divide by 12, round down)	\$ 1,898

2. COMPUTE <u>CSRS PORTION OF MONTHLY ANNUITY</u> REDUCED FOR SURVIVOR BENEFITS	
CSRS Portion of Annual Annuity Otherwise Payable	\$ 20,250
Reduction Factor for Survivor Benefits (.90 = Full, .95 = Half)	.90
CSRS Portion of Annual Annuity Reduced for Survivor Benefits	\$ 18,225
(B) CSRS PORTION OF MONTHLY ANNUITY REDUCED FOR SURVIVOR BENEFITS (Divide by 12, round down)	\$ 1,518

3. COMPUTE <u>FERS PORTION OF MONTHLY ANNUITY</u> REDUCED FOR SURVIVOR BENEFITS	
Combined Monthly Annuity Reduced for Survivor Benefits (A)	\$ 1,898
CSRS Portion of Monthly Annuity Reduced for Survivor Benefits (B)	- 1,518
(C) FERS PORTION OF MONTHLY ANNUITY REDUCED FOR SURVIVOR BENEFITS	\$ 380

Example 3 (Cont.)

**AFA COMPUTATION FOR
FERS TRANSFEREE WITH A CSRS COMPONENT**

4. COMPUTE COMBINED MONTHLY ANNUITY REDUCED FOR AFA		
CSRS Portion of Monthly Annuity Reduced for Survivor Benefits (B)	\$ 1,518	
FERS Portion of Monthly Annuity Reduced for Survivor Benefits (C)		\$ 380
Subtract Monthly AFA Reduction for Each Component:		
a. CSRS Contributions Divided by CSRS PVF: (Round to next higher dollar)		
CSRS Contributions = 20,000		
<hr/>	<hr/>	
CSRS PVF = 188.3	- 107	
b. FERS Contributions Divided by FERS PVF: (Round to next higher dollar)		
FERS Contributions = 10,000		
<hr/>	<hr/>	
FERS PVF = 162.7		- 62
CSRS Portion of Monthly Annuity Reduced for AFA	\$ 1,411	
(D) FERS Portion of Monthly Annuity Reduced for AFA		\$ 318
Add FERS Portion of Monthly Annuity Reduced for AFA (D)	+ 318	
COMBINED MONTHLY ANNUITY REDUCED FOR AFA	\$ 1,729	

Part 53C3 Forms**Section 53C3.1-1 Special Tax Notice Regarding Rollovers (RI 37-22)****Special Tax Notice
Regarding Rollovers, RI 37-22**

This notice contains important Federal income tax and other information you will need before you decide how to receive your lump-sum payment from the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). To be of service to our customers, the Office of Personnel Management has worked with the Internal Revenue Service to present a general explanation of how P.L. 102-318 affects those who receive our benefits. However, the IRS remains the authority on tax matters and questions. Requests for additional or clarifying information should be directed to them. The official tax publications that govern how benefits are taxed are referenced at the end of this notice. OPM does not stock IRS publications. We cannot provide official tax information nor can we advise individuals on tax matters. The following discussion applies to the **taxable** portion of your lump-sum payment.

Summary

A taxable payment from the Office of Personnel Management (OPM) that is eligible for "rollover" can be paid in one of two ways. You can have **all or any part** of your payment either (1) paid in a "direct rollover" or (2) paid to you. A rollover is a payment of the taxable portion of your CSRS or FERS benefit to your individual retirement arrangement (IRA) or to another employer retirement plan. This choice will affect the tax you owe.

If you choose a **direct rollover** of the taxable portion --

- Your payment will not be taxable income in the year it is paid, and no income tax will be withheld.
- Your payment will be made directly to your IRA or, if you choose, to another employer retirement plan that accepts your rollover.
- Your payment will be taxable income later when you take it out of the IRA or the employer retirement plan.

If you choose to have the taxable portion of your benefit **paid to you** --

- You will receive only 80 percent of the payment, because OPM is required to withhold 20 percent of the payment and send it to the Internal Revenue Service as income tax withholding to be credited against your taxes.
- Your payment will be taxed in the year it is paid unless you roll it over. You may be able to use special tax rules that could reduce the tax you owe. However, if you receive the payment before age 59-1/2, you also may have to pay an additional 10 percent tax.
- You can roll over the payment by paying it to your IRA or to another employer retirement plan that accepts your rollover within 60 days after you receive the payment. The amount rolled over will not be taxed until you take it out of the IRA or employer retirement plan.
- If you want to roll over 100 percent of the payment to an IRA or an employer retirement plan, you must find other money to replace the 20 percent that was withheld. We cannot refund the 20 percent once it has been withheld. If you roll over only the 80 percent you receive, you will be taxed on the 20 percent that was withheld and that is not rolled over.

MORE INFORMATION**I. PAYMENTS THAT CAN AND CANNOT BE ROLLED OVER**

Certain payments from the OPM are "eligible rollover distributions." This means they can be rolled over to an IRA or to another employer retirement plan that accepts rollovers. In general, only the "taxable portion" of your payment is an eligible rollover distribution. Information on the portion of your payment that is eligible for rollover is enclosed. The following types of payments cannot be rolled over:

Non-taxable Payments. In general, the non-taxable portion of your payment is not an eligible rollover distribution. If you have made "after-tax" employee contributions, these contributions will be non-taxable when they are paid to you, and they cannot be rolled over. (After-tax employee contributions generally are contributions you made from your own pay that was already taxed.)

Payments Spread Over Long Periods. You cannot roll over a payment if it is part of a series of equal (or almost equal) payments that are made at least once a year and that will last for

- your lifetime (or your life expectancy), or
- your lifetime and your beneficiary's lifetime (or life expectancies), or
- a period of ten years or more.

Required Minimum Payments. Beginning in the year you reach age 70-1/2, a certain portion of your payment cannot be rolled over because it is a "required minimum payment" that must be paid to you. **You must compute and exclude this amount from a direct rollover if you will be age 70-1/2 or older when the payment is made.**

II. DIRECT ROLLOVER

You can choose a direct rollover of all or any portion of your payment that is an "eligible rollover

distribution" as described above. In a direct rollover, the eligible rollover distribution is paid directly from OPM to an IRA or another employer retirement plan that accepts rollovers (or is sent to you in a check made payable to the IRA or other retirement plan). If you choose a direct rollover, you are not taxed on a payment until you later take it out of the IRA or the employer retirement plan. OPM will not pay a direct rollover or withhold tax on taxable payments under \$200, but recipients themselves may roll over such payments tax free within 60 days after receipt. The minimum direct rollover amount is \$500 if you designate part of your payment as a direct rollover with the remainder payable to you. OPM will pay a direct rollover to only one IRA or retirement plan at any one time.

Direct Rollover to an IRA. You can open an IRA to receive the direct rollover. (the term "IRA," as used in this notice, includes individual retirement accounts and individual retirement annuities.) If you choose to have your payment made directly to an IRA, contact an IRA sponsor (usually a financial institution) to find out how to have your payment made in a direct rollover to an IRA at that institution. If you are unsure of how to invest your money, you can temporarily establish an IRA to receive the payment. However, in choosing an IRA, you may wish to consider whether the IRA you choose will allow you to move all or part of your payment to another IRA at a later date, without penalties or other limitations. See IRS Publication 590, **Individual Retirement Arrangements**, for more information on IRA's (including limits on how often you can roll over between IRA's).

Direct Rollover to an Employer Retirement Plan. If you are employed by a new employer that has a retirement plan and you want a direct rollover to that plan, ask the administrator of that plan whether it will accept your rollover. An employer retirement plan is not legally required to accept a rollover. If your new employer's retirement plan does not accept a rollover, you can choose a direct rollover to an IRA.

Direct Rollover of a Series of Payments. If you receive eligible rollover distributions that are paid in a series of less than 10 years, your choice to make or not make a direct rollover for a payment will apply to all later payments in the series unless you change your election. You are free to change your election for any later payment in the series by contacting OPM.

III. PAYMENT PAID TO YOU

If you have the payment made to you, it is subject to 20 percent Federal income tax withholding. The payment is taxed in the year you receive it unless, within 60 days after receiving it, you roll it over to an IRA or another plan that accepts rollovers. If you do not roll it over, special tax rules apply.

Mandatory Federal Income Tax Withholding. If any portion of the payment to you is an eligible rollover distribution, OPM is required by law to withhold 20 percent of that amount. This amount is sent to the IRS as income tax withholding. For example, if your eligible rollover distribution is \$10,000, only \$8,000 will be paid to you because OPM must withhold \$2,000 as income tax. However, when you prepare your income tax return for the year, you will report the full \$10,000 as a payment from OPM. You will report the \$2,000 as tax withheld, and it will be credited against any income tax you owe for the year.

Sixty-Day Rollover Option. If you have an eligible rollover distribution paid to you, you can still decide to roll over all or part of it to an IRA or another employer retirement plan that accepts rollovers. If you decide to roll it over, **you must make the rollover within 60 days after you receive the payment.** The portion of your payment that is rolled over will not be taxed until you take it out of the IRA or the employer retirement plan.

You can roll over up to 100 percent of the eligible rollover distribution, including an amount equal to the 20 percent that was withheld. If you choose to roll over 100 percent, you must find other money within the 60-day period to contribute to the IRA or the employer retirement plan to replace the 20 percent that was withheld. On the other hand, if you roll over only the 80 percent that you received, you will be taxed on the 20 percent that was withheld.

Example: Your eligible rollover distribution is \$10,000, and you choose to have it paid to you. You will receive \$8,000, and \$2,000 will be sent to the IRS as income tax withholding. Within 60 days after receiving the \$8,000, you may roll over the entire \$10,000 to an **IRA** or employer retirement plan. To do this, you roll over the \$8,000 you received from OPM, and you will have to find \$2,000 from other sources (your savings, a loan, etc.). In this case, the entire \$10,000, is not taxed until you take it out of the IRA or employer retirement plan. If you roll over the entire \$10,000, when you file your income tax return you may get a refund of the \$2,000 withheld.

If, on the other hand, you roll over only \$8,000, the \$2,000 you did not roll over is taxed in the year it was withheld. When you file your income tax return, you may get a refund of part of the \$2,000 withheld. (However, any tax refund is likely to be larger if you roll over the entire \$10,000.)

Additional 10 Percent Tax If You Are Under Age 59-1/2. If you receive a payment before you reach age 59-1/2 and you do not roll it over, the, in addition to the regular income tax, you may have to pay an extra tax equal to 10 percent of the taxable portion of the payment. The additional 10 percent tax does not apply to your payment if it is (1) paid to you because you separate from service with your employing agency during or after the year you reach age 55, (2) paid because you retire due to disability (as determined by IRS), (3) paid to you as equal (or almost equal) payments over your life or life expectancy (or your and your beneficiary's lives of life expectancies), or (4) used to pay certain medical expenses. See IRS Form 5329, **Return for Additional Taxes...**, for more information on the additional 10 percent tax.

Special Tax Treatment. If your eligible rollover distribution is not rolled over, it will be taxed in the year you receive it. However, if it qualifies as a "lump-sum distribution," it may be eligible for special tax treatment. A lump-sum distribution is a payment within 1 year, of your entire balance under CSRS or FERS that is payable to you because you have separated from service with your agency. For a payment to qualify as a lump-sum distribution, you must have been a participant under CSRS or FERS for at least 5 years. The special tax treatment for lump-sum distributions is described below.

Five-Year Averaging. If you receive a lump-sum distribution after you are age 59-1/2, you may be able to make a one-time election to figure the tax on the payment by using "5-year averaging." Five-year averaging often reduces the tax you owe because it treats the payment much as if it were paid over 5 years.

Ten-Year Averaging If You Were Born Before January 1, 1936. If you receive a lump-sum distribution and you were born before January 1, 1936, you can make a one-time election to figure the tax on the payment by using "10-year averaging" (using 1986 tax rates) instead of 5-year averaging (using current tax rates). Like the 5-year averaging rules, 10-year averaging often reduces the tax you owe.

Capital Gain Treatment If You Were Born Before January 1, 1936. In addition, if you receive a lump-sum distribution and you were born before January 1, 1936, you may elect to have the part of your payment that is attributable to your pre-1974 participation under CSRS or FERS (if any) taxed as long-term capital gain at a rate of 20 percent.

There are other limits on the special tax treatment for lump-sum distributions. For example, you can generally elect this special tax treatment only once in your lifetime, and the election applies to all lump-sum distributions that you receive in that same year. If you have previously rolled over a payment from OPM, you cannot use this special tax treatment for later payments from OPM. If you roll over your payment to an IRA, you will not be able to use this special tax treatment for later payments from the IRA. Also, if you roll over only a portion of your payment to an

IRA, this special tax treatment is not available for the rest of the payment. Additional restrictions are described in IRS Form 4972, which has more information on lump-sum distributions and how you elect the special tax treatment.

IV. SURVIVING SPOUSES, ALTERNATE PAYEES, AND OTHER BENEFICIARIES

In general, the rules summarized above that apply to payments to employees also apply to payments to surviving spouses of employees and to spouses or former spouses who are "alternate payees." You are an alternate payee if your benefit results from an order issued by a court, usually in connection with a divorce or legal separation. Some of the rules summarized above also apply to a deceased employee's beneficiary who is not a spouse. However, some exceptions for payments to surviving spouses, alternate payees, and other beneficiaries should be mentioned.

If you are a surviving spouse, you may choose to have an eligible rollover distribution paid in a direct rollover to an IRA or paid to you. If you have the payment paid to you, you can keep it or roll it over yourself to an IRA, but you cannot roll it over to an employer retirement plan. If you are an alternate payee, you have the same choices as the employee. Thus, you can have the payment paid as a direct rollover or paid to you. If you have it paid to you, you can keep it or roll it over yourself to an IRA or to another employer retirement plan that accepts rollovers. If you are a beneficiary other than a surviving spouse or alternate payee, you cannot choose a direct rollover, and **you cannot** roll over the payment yourself.

If you are a surviving spouse, an alternate payee, or another beneficiary, your payment is not subject to the additional 10 percent tax described in section III above, even if you are younger than age 59-1/2.

If you are a surviving spouse, an alternate payee, or another beneficiary, you may be able to use the special tax treatment for lump-sum distributions, as described in section III above. If you receive a payment because of the employee's death, you may be able to treat the payment as a lump-sum distribution if the employee met the appropriate age requirements, whether or not the employee had 5 years of service under CSRS or FERS.

HOW TO OBTAIN ADDITIONAL INFORMATION

This notice summarizes only the Federal (not State or local) tax rules that might apply to your payment. The rules described above are complex and contain many conditions and exceptions that are not included in this notice. Therefore, you may want to consult with a professional tax advisor before you take a payment of your benefits from OPM. Also, you can find more specific information on the tax treatment of payments from qualified retirement plans in IRS Publication 575, **Pension and Annuity Income**, IRS Publication 590, **Individual Retirement Arrangements**, and IRS Publication 721, **Tax Guide to U.S. Civil Service Retirement Benefits**. These publications are available from your local IRS office or by calling 1-800-TAX-FORMS.

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Section 53C3.1-2 Alternative Annuity and Rollover Election Form (RI 38-122)

Please see page 53

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Alternative Annuity and Rollover Election

 **Please read all of the information in the Alternative Annuity Election Information For Employees notice before completing this form.**

I. Alternative Annuity

<input type="checkbox"/> I do not want to make an election at this time. I want OPM to send me the complete alternative annuity election package. I understand my application for retirement will not be processed until after I receive and return the election forms. Provide your signature below and return this form to your Personnel Office. Do not check any of the following blocks.	
Your signature	Date


<input type="checkbox"/> I elect to receive a reduced alternative annuity and a lump-sum payment of my retirement contributions. If I am married, the consent of my spouse is shown below in Part II. I do not have a former spouse who is entitled by court order to a portion of my annuity or a survivor annuity. I also completed the reverse side and provided my signature. <i>If you are retiring involuntarily, specify how you want to receive the lump sum:</i>	
<input type="checkbox"/> I want one installment	<input type="checkbox"/> I want two installments

II. Spousal Consent

 **Your spouse must sign in the presence of a notary or other person authorized to administer oaths.**

<input type="checkbox"/> I freely consent to this alternative annuity election.		
Signature of current spouse		
Notarization —To be completed by notary public or other official authorized to administer oaths.		
I certify that the person whose signature appears immediately above presented identification (or was known to me), gave consent to the specific election as executed by the retiree, signed or marked the form, and acknowledged that the consent was given freely in my presence.		(Seal)
Signature	Expiration date of commission	Date

III. Rollover Election

 **Complete one of the following options**

<input type="checkbox"/>	Pay me my lump sum directly. I understand that 20% of the taxable amount of the lump sum will be withheld for tax but that I can rollover part or all of the taxable amount to a qualified account to defer income tax within 60 days.
<input type="checkbox"/>	I want (enter "all" or a dollar amount at or above \$500) _____ of the taxable amount of my lump sum made payable to the account shown below with no tax withholding. I understand that any balance made payable to me will be subject to 20% tax withholding, but that I can roll any part of it over to a qualified account to defer income tax within 60 days. If you check this block, your financial institution must complete Part IV.
<input type="checkbox"/>	Send my payment directly to my account. <input type="checkbox"/> Send the payment to me, made payable to my account. I will deliver it to the account within 60 days.

Provide your certification: By my signature below, I certify that I have read and understood the information in the accompanying Alternative Annuity Election Information For Employees notice. I certify that I do not have a former spouse entitled by court order to receive a portion of my annuity or a survivor annuity.

Signature	Social Security Number	Date
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Warning: Any intentionally false or willfully misleading statement or response you provide in this election is a violation of the law punishable by a fine of not more than \$10,000 or imprisonment of no more than 5 years, or both. (18 U.S.C. 1001)

IV. Certification by Financial Institution or Retirement Plan

 **This part must be completed by your financial institution or retirement plan if all or part of the taxable portion of your lump sum is made payable to an IRA.**

Name of institution or retirement plan	IRA Account number
Address of institution or retirement plan	
Certification: As a representative of the financial institution or plan named above, I confirm the account number for the individual named above and the address of the institution or retirement plan. I certify that the financial institution or plan named above agrees to receive funds from the individual and deposit them in an eligible IRA or retirement plan as defined in the Internal Revenue Code.	
Typed or printed name of certifying representative	
Signature of certifying representative	
Daytime phone (area code & number)	Date of certification

Section 53C3.1-3 Alternative Annuity Election Information For Employees (RI 38-123)

Please see page 57

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Alternative Annuity Election Information For Employees

The following general information is provided to allow you to elect an alternative annuity benefit at this time. If you prefer, you can make your election after the Office of Personnel Management (OPM) receives your retirement package and sends you more detailed information specific to your case. If you are making an election now, have your personnel office provide you with an estimate of your annuity with and without the alternative annuity reduction. You should also read the attached Special Tax Notice Regarding Rollovers, before making your election.

You can elect an alternative annuity if (1) you retire involuntarily (without cause) on or before September 29, 1994, or (2) you retire on a nondisability annuity and have a life-threatening affliction or other critical medical condition. If you are married, your spouse must consent to your election. Please note that you cannot elect an alternative annuity if you have a former spouse who is entitled by court order to a portion of your annuity or a survivor annuity. (Certain senior officials and Schedule C employees are not eligible for the alternative annuity. Your agency will inform you.)

If you believe you are eligible for an alternative annuity because you have a life-threatening affliction or other critical medical condition, please attach your physician's certification of your illness to your election. OPM will determine if you are eligible for this benefit.

If you elect an alternative annuity benefit:

- ❖ Your annuity will be permanently reduced and you will receive a lump-sum payment of your retirement contributions. The reduction is determined by dividing your lump-sum credit by an actuarial factor for your age. See your agency for an estimate of the reduction.
- ❖ The amount of any survivor benefit you provide will not be affected.
- ❖ You cannot change to a disability retirement after OPM processes your retirement application.
- ❖ If you receive non-scheduled compensation from the Office of Workers' Compensation Programs (OWCP), all annuity paid AND the lump sum payment must be repaid before OWCP will pay benefits to you.
- ❖ If you retire involuntarily, you can choose to receive the lump sum in two installments. The second installment (50%, plus interest) will be paid one year after the month we paid the first installment .
- ❖ If you receive the lump-sum payment, you have incurred tax liability for that payment. That liability does not change even if you repay the lump-sum to OPM.

Generally, 80% to 95% of the lump sum is taxable in the year in which it is received unless you choose to defer the income tax by rolling over all or part of the **taxable** portion to an Individual Retirement Account (IRA) or another retirement plan that accepts rollovers. (For purposes of this notice, the term "IRA" includes retirement plans that accept rollovers.) **The non-taxable portion of the lump sum will be paid to you and cannot be rolled over.** If you want the taxable portion paid directly to an IRA, contact an IRA sponsor (usually a financial institution) for assistance.

Your alternative annuity will include credit for any unpaid deposits and redeposits for creditable civilian service. These amounts are "deemed" paid. Any deemed amount in excess of the non-taxable portion of the lump sum credit is taxable in the year the lump sum is paid unless it is rolled over. However, OPM cannot roll over these amounts. You can roll over taxable deemed amounts with your own funds within 60 days after you receive the lump sum.

If all or part of the taxable portion of the lump sum is paid directly to an IRA:

- ❖ No income tax will be withheld from the payment sent to the IRA; the payment will not be taxable until you take it out.
- ❖ OPM will send the payment directly to the IRA, or to you in a check made payable to the IRA.

If all or part of the taxable portion of the lump sum is paid directly to you:

- ❖ You will receive 80% of the payment. OPM must withhold 20% for tax (including 20% of any taxable deemed amount), which will be sent to the Internal Revenue Service (IRS) to be credited against your taxes. You may be able to use special tax rules to reduce the taxes you owe. However, an additional 10% tax may apply if you receive the lump sum before age 59 1/2.
- ❖ You can defer the income tax by rolling over all or part of the taxable portion of the lump sum within 60 days after you receive it. If you want to roll over 100%, you must find other money to replace the 20% that was withheld. If you roll over the 80% you receive, you will be taxed on the 20% that was not rolled over.

OPM will provide you with additional information on the amounts that can be rolled over when they send you the lump-sum payment.

The following IRS publications will provide you with more specific information on the tax treatment of payments from qualified retirement plans: IRS Publication 575, **Pension and Annuity Income**, IRS Publication 590, **Individual Retirement Arrangements**, and IRS Publication 721, **Tax Guide to U.S. Civil Service Retirement Benefits**. These forms are available from your local IRS office. You may also wish to consult with a professional tax advisor. OPM cannot provide you with tax publications or tax advice.

Privacy Act Statement

Solicitation of this information is authorized by Chapters 83 and 84, title 5, U.S. Code. The information you furnish will be used to obtain additional information, if necessary, and to determine and allow present or future benefits. The information may be shared and is subject to verification via paper, electronic media, or through the use of computer matching programs, with national, state, local, or other charitable or social security administrative agencies in order to determine benefits under their programs, to obtain information necessary for determination of benefits under this program, or to report income for tax purposes. It may also be shared or verified, as noted above, with law enforcement agencies when they are investigating a violation or potential violation of the civil or criminal law.